

RHODE ISLAND INFRASTRUCTURE BANK
MEETING OF THE BOARD OF DIRECTORS

PUBLIC SESSION

January 25, 2016

A meeting of the Board of Directors of the Rhode Island Infrastructure Bank ("RIIB") in public session was held on Monday, January 25, 2016 in the conference room of the RIIB, 235 Promenade Street, Suite 119, Providence, Rhode Island pursuant to a duly posted public notice of the meeting and notice given to all the Directors. The meeting was called to order by the Chair of the Board, Merrill Sherman, at approximately 3:00 p.m.

Directors present were: Chair Merrill Sherman, Lisa Ferrara, Joshua Celeste, and Kelly Rogers representing Treasurer Seth Magaziner.

Directors absent were: Scott Lajoie

Also present were: Joseph Dewhirst, Interim Executive Director; Michael P. Larocque, Deputy Director; Michael Baer, Senior Advisor; Michael Pagliaro, Senior Accountant; Robin Hedges, Clean Water Program Manager; Anna Coelho Cortes, Drinking Water Program Manager; Helen Terra, Road and Bridge Program/Compliance Manager; Marcelina Jackson, Administrative Assistant; Christopher Vitale and Stephanie Federico, Harrington & Vitale, RIIB Legal Counsel; Neal Pandozzi, Nixon Peabody, RIIB Bond Counsel; Maureen Gurghigian and Adam Krea, First Southwest Company, RIIB Financial Advisors.

Chair Sherman opened the meeting declaring a quorum and addressed the first item on the Agenda: Review and consideration of the December 21, 2015 Board Meeting Minutes.

Board Member Lisa Ferrara recommended changing language in Item #17 in the Minutes regarding investment of Bank funds from "incremental plan" to "interim plan."

Voted: A motion was made by Josh Celeste, seconded by Lisa Ferrara that the meeting minutes from the December 21st, 2015 Board meeting be accepted with the proposed amendment.

- Voting in favor of the foregoing: Chair Merrill Sherman, Lisa Ferrara, and Joshua Celeste, and Kelly Rogers.
- Voting against the foregoing: None

The Chair moved to **Item #2** of the Agenda: Board Chair remarks.

Chair Sherman said that she is enormously proud of RIIB's staff and its accomplishments, including the refinancing of Bank and Pawtucket bonds and as well as new loans implementing new cash management procedures, developing new operating policies and procedures, rolling out the Efficient Buildings Fund, and continuing to develop Commercial PACE and other new programs.

Chair Sherman further discussed the ongoing search for a new Executive Director. She reported that an Executive Search Firm had been retained, the job had been posted on the RIIB and RI DLT websites, and the search firm had produced 5 potential candidates who have all been interviewed. Chair Sherman noted that a few more candidates would be interviewed. The Chair indicated that there are strong candidates for this position and that she anticipated making a selection soon.

No vote was necessary for this agenda item.

The Chair moved to **Item #3** of the Agenda: Interim Executive Director's report.

Joseph Dewhirst reported that RIIB staff is continuing work related to the recent Drinking Water SRF bond issuance and is preparing for the next bond issue from the Clean Water SRF. Continuing on the general topic of water quality, he reported that during the prior week, in response to the discovery of serious drinking water problems in Flint, Michigan, Senator Reed had conducted a fact-finding meeting at RIIB. The meeting included a variety of stakeholders, such as RIIB, EPA, and DOH. The major takeaway from the meeting was that the biggest risk to some citizens of RI is lead from pipes in their residences. Mr. Dewhirst speculated that RIIB could possibly work with DOH to develop a program, modeled on CSSLP, to accelerate the removal of lead pipes in private homes.

Next, Mr. Dewhirst reported that RIIB is preparing a new round of Road and Bridge loans and, depending on ultimate demand, may issue its first Road and Bridge Bonds. Currently, the principal source of capital for the road and bridge loans is State funds.

Mr. Dewhirst then summarized progress of the Efficient Buildings Fund. He reported that 54 energy audits of municipal and school buildings had been completed and that 16 municipalities had submitted 24 applications for projects totaling approximately \$69 million. He indicated that the OER staff were evaluating the applications. Finally, he noted that visible demand exceeds current program capacity and latent demand is potentially huge, so RIIB will need to find additional sources of funding for this program.

Kelly Rogers stated that the Treasurer's Office was pleasantly surprised at the robust demand. She suggested that a successful first round of funding will hopefully lead to additional rounds of funding. She stated that the Treasurer has committed to doing his best to increase the allocation and is in conversations with the General Assembly for the coming year regarding continued investment in the program.

Chair Sherman stated that everyone who had worked on this project deserves credit. She further stated that the demand for this program indicates that additional staff support will be necessary to assist with programs like this. She further stated that these new hires should be selected by a new Executive Director and that is one reason why it is imperative to get the new Executive Director on board soon.

Mr. Dewhirst also provided brief updates regarding the ongoing implementation of C-PACE, which is progressing well, and the current regulatory issues delaying the implementation of R-PACE.

Next, Mr. Dewhirst addressed the Community Septic System Loan Program. He noted that demand could greatly increase due to the point of sale legislation that was passed last year. Specifically, based on estimates of ~20,000 residential cesspools in the state and ~5% annual housing turnover, both he and the Department of Environmental Management anticipate that there could be ~1,000 additional cesspool closure projects per annum. It is unclear, of course, what percentage of these projects would translate into demand for loans from the CSSLP program. It seemed plausible, he said, that if the program is well advertised, administered, and funded, then demand could jump from the historic 40-50 loans per year to perhaps 400-500 per year.

Finally, Mr. Dewhirst discussed various projects (with associated RFPs) in process, including a search for a new loan processing system, the redesign of the RIIB website, the selection of a Financial Advisor, and the selection of an Audit firm.

No vote was necessary for this agenda item.

The Chair moved to **Item #4** of the Agenda: Review and consideration of the October 2015 financial statements.

Michael Larocque reviewed the Revenue and Expense Report for the RI Infrastructure Bank for the four months ended October 31, 2015, the Balance Sheet for the Bank as of October 31, 2015 as well as Liabilities and Fund Balance.

Voted: A motion was made by Lisa Ferrara, seconded by Josh Celeste that the October 2015 financial statement be accepted.

- Voting in favor of the foregoing: Chair Merrill Sherman, Kelly Rogers, Lisa Ferrara and Joshua Celeste.
- Voting against the foregoing: None

The Chair moved to **Item #5** of the Agenda: Review and consideration of a loan to the Town of Portsmouth in an amount up to \$300,000 out of the Community Septic System Loan Program (CSSLP).

Interim Executive Director Joseph Dewhirst recommended the Bank's Board of Directors accept the loan application from the Town of Portsmouth in an amount up to \$300,000 out of the Community Septic System Loan Program (CSSLP) with the following standard caveats:

- That all projects to be funded appear on Department of Environmental Management's Project Priority List and have Certificates of Approval issued;
- That the borrower comply with all Federal, State, and Agency laws, rules and regulations;
- That a satisfactory loan agreement be signed by all parties to the transaction;
- That the loan will be made subject to availability of funds.

Adam Krea of First Southwest reviewed details of Portsmouth's financial condition. The Town of Portsmouth is requesting a non-restoring line of credit in the amount of \$300,000. This line of credit would be used for the development and operation of a CSSLP and allow Portsmouth to

make loans available to real property owners in the Wastewater Management District for the repair or replacement of failed septic systems or cesspools. The borrowing cost for the homeowner will be 1% for a term up to ten years. The Town of Portsmouth is rated “Aa2” by Moody’s and “AAA” by Standard and Poor’s. These ratings reflect the Town’s moderately-sized tax base with above average wealth levels, well-managed financial position, and manageable debt burden. Taxable values have declined in the Town and are expected to improve by the next revaluation effective fiscal year 2018. In Fiscal Year 2014 Portsmouth derived 78.5% of its revenues from property taxes with a 96% collection rate.

At the end of fiscal year 2014 the total fund balance for the General Fund was \$10,057,799 or 16.6% of total revenues. The total unassigned fund balance is \$6,076,343 or 10% of total 2014 revenues. This is in compliance with the Town’s formal fund balance policy adopted in 2011.

First Southwest recommended approval of the loan application with the understanding that RIIB will review the request in connection with the DEM Project Priority List and Bank capacity.

Voted: A motion was made by Kelly Rogers, seconded by Lisa Ferrara to approve the loan

- Voting in favor of the foregoing: Chair Merrill Sherman, Kelly Rogers, Lisa Ferrara and Joshua Celeste.
- Voting against the foregoing: None

The Chair moved to **Item #6** of the Agenda: Review and consideration of a Bond Issuance Resolution for the Clean Water 2016A Bond Issue in an amount up to \$45,000,000.

Neal Pandozzi from Nixon Peabody reviewed the terms and sections of the Bond Resolution with the Board and explained that the Bond Resolution approves up to \$45,000,000 and includes articles addressing authorization, establishment of accounts and application, form of the bond and other miscellaneous sections of the Resolution.

Joseph Dewhirst represented that he is still negotiating with NBC regarding the structure of the loan to them, so the full amount of the bond may be reduced depending upon NBC’s final proposal.

Voted: A motion was made by Kelly Rogers, seconded by Josh Celeste to approve the resolution

- Voting in favor of the foregoing: Chair Merrill Sherman, Kelly Rogers, Lisa Ferrara and Joshua Celeste.
- Voting against the foregoing: None

The Chair moved to **Item #7** of the Agenda: Review and consideration of the C-PACE guidelines.

Michael Baer reviewed the C-PACE program guidelines, which have been under construction for approximately 2.5 months. Mr. Baer reminded the Board that RIIB is working with SRS to create an “open platform” for C-PACE financing from 3rd party capital providers; RIIB will not lend money itself. Specifically, Mr. Baer noted that eligible projects included renewable energy,

energy efficiency and water conservation. But he added that the goal was to maintain flexibility so details regarding eligible projects would be approved by the Board at a later date and would be periodically updated as necessary. He further noted that all proposed projects would go through a rigorous application process, including feasibility studies and cost-benefit analyses, with approval from an independent third party.

Mr. Baer noted that this program requires mortgage holder consent. So the first mortgage holder on the commercial property would be an important gatekeeper, as they will have to provide written consent for recording the lien in a position senior to their mortgage. He also noted that municipalities (town/city councils) must pass resolutions to opt into the program. He further indicated that these projects may include new construction so long as the proposals exceed the current state energy code by at least 10%.

Since the program is operating as an “open platform”, Mr. Baer explained that RIIB would not set strict underwriting criteria that lenders would have to adhere to, but rather set criteria that lenders must use when underwriting C-PACE projects in Rhode Island. These criteria include a total property-related debt to property value ratio, cash flow, that the property owner must be current on property taxes and assessments, must have not defaults or judgments, and must have had no bankruptcies. These are similar criteria that are used in other states.

Finally, Mr. Baer explained the process by which the regulations must be approved by the Office of Regulatory Reform under the Administrative Procedures Act. This process includes a public notice and comment period. If changes are made, the regulations would come back to the board for final approval.

Board Member Joshua Celeste inquired about the probable size of commercial projects that will seek funding, and Mr. Baer indicated that most projects are anticipated to be \$500,000 and above on average. Chair Sherman noted that these projects are usually cash flow positive and thus pay for themselves while enhancing the value of the building. Kelly Rogers commended Mike Baer, the staff and SRS on getting the program off the ground so comprehensively and timely.

Voted: A motion was made by Kelly Rogers, seconded by Josh Celeste to approve the C-PACE Regulations

- Voting in favor of the foregoing: Chair Merrill Sherman, Kelly Rogers, Lisa Ferrara and Joshua Celeste.
- Voting against the foregoing: None

The Chair moved to **Item #8** of the Agenda: Review and consideration of fee schedule for C-PACE program administration.

Mr. Baer and Mr. Dewhirst presented details regarding the fee schedule for the C-PACE program. They noted that SRS had originally proposed an administrative fee of 4% of the loan to be paid by the Borrower at closing. This fee was intended not only to compensate SRS for ongoing services but also to cover upfront development costs. Mr. Dewhirst presented a schedule of such costs, indicating that SRS will incur approximately \$400,000 per year in development costs during the first two years.

Mr. Dewhirst and Mr. Baer reported that SRS was willing to reduce the administrative fee in return for direct payments from RIIB. While the schedule was still under negotiation with SRS, it seemed likely that SRS and RIIB would agree that (a) RIIB would pay ~\$400,000 per annum for two years and, in return, SRS would agree to reduce the service fee from 4.00% to 2.50%. Finally, it was noted that 0.25% of the administrative fee would be paid to RIIB to defray ongoing expenses.

Kelly Rogers inquired as to how the fees to RIIB would be used. Mr. Baer explained that they would primarily be used for staffing the program.

Finally, Mr. Dewhirst noted that this update was presented for informational purposes only, as authorization had previously been given by the Board to allow Joseph Dewhirst to negotiate and enter into a contract with SRS. Chair Sherman noted the tremendous due diligence that has been conducted on this issue by RIIB.

There was no further comment.

No vote was necessary for this Agenda Item.

The Chair moved to **Item #9** of the Agenda: Legislative Update.

Christopher Vitale provided a legislative update. He noted that the Governor's budget will be released in early February. Meanwhile, he is following all of the bills that have been introduced to date, including a "Green Energy Bill" and a revolving fund loan at Commerce RI to create a solar program, as well as debt management legislation.

Mr. Vitale also stated that at the next board meeting he will give an overview of anything in the budget that might affect RIIB.

No vote was necessary for this Agenda item.

The Chair moved to **Item #10** of the Agenda: Expenses.

Chair Sherman indicated that the appropriate documentation had been provided to the Board regarding Expenses and that she would entertain any comments, questions or concerns regarding the expenses. No comments were made by other Board members.

Voted: A motion was made by Josh Celeste, seconded by Lisa Ferrara to approve the expenses as presented

- Voting in favor of the foregoing: Chair Merrill Sherman, Kelly Rogers, Lisa Ferrara and Joshua Celeste.
- Voting against the foregoing: None

The Chair moved to **Item #11** of the Agenda: Next regularly scheduled meeting date, February 22, 2016.

No vote was necessary for this Agenda item.

Voted: A motion was made by Kelly Rogers, seconded by Joshua Celeste to adjourn the meeting.

- Voting in favor of the foregoing: Chair Merrill Sherman, Kelly Rogers, Lisa Ferrara and Joshua Celeste.
- Voting against the foregoing: None

The meeting adjourned at approximately 4:40 p.m.